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INDUSTRIAL DISTRIBUTION

THE MANAGEMENT AND SALES MAGAZINE FOR DISTRIBUTORS

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One of a kind: five decades of sales PAGE 20

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Plumbing & Industrial Supply
Evansville, Ind.

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JEANNE LONG, SRI AQUIS EDITOR
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Today's buyers demand sellers who listen as well as talk.—p. 30

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Steady growth ahead for Pacific Northwest

While the heady days of double digit growth are over for distributors in this region, the area's diversity should keep sales strong for the next few years.

Jim Douglas

The Port of Portland has emerged during the past few years as one of the West Coast's leading trade and transportation centers. Many now consider it the gateway to the Pacific Rim.

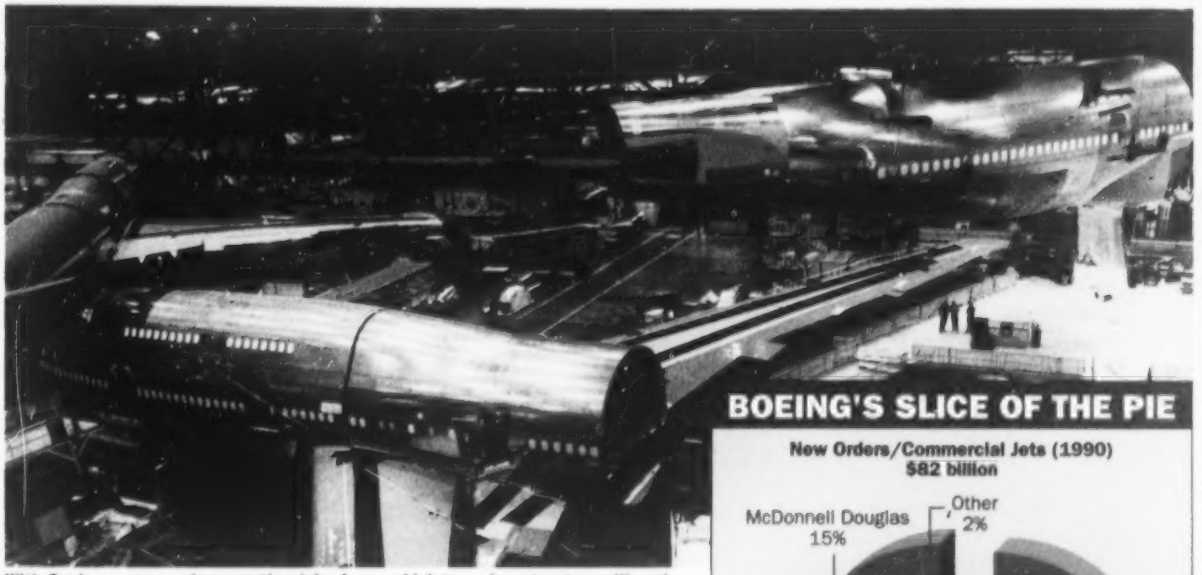
By Steve Zurier, Senior Editor

Aerospace. Fishing. High Technology. Machinery. Construction. Pulp and paper. These are but a few of the diverse industries Pacific Northwest distributors say will keep the region's economy pumping well into the 1990s.

"Our strength is our diversity," says Bowen King, president of Seattle-based Steam Supply & Rubber Co. "As industry comes into our region from other parts of the country, it gives distributors additional opportunities to sell. In my mind, the Pacific Northwest is what Arizona and the rest of the Sun Belt was about 15 years ago."

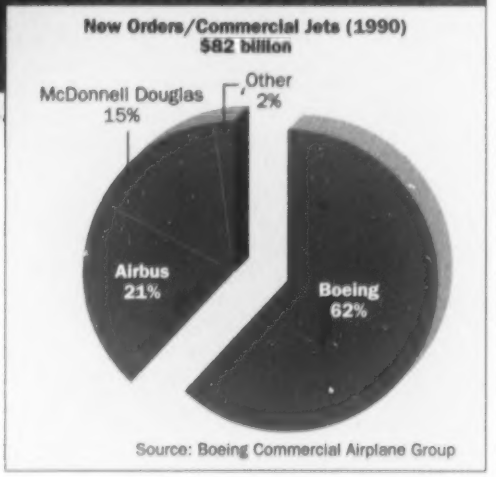
Many of the region's economic analysts agree. Michael J. Parks, Editor and Publisher of *Marple's Business Newsletter*, a leading source of business news in the Pacific Northwest, says that while businesses won't experience the double-digit growth of the late 1980s, the region's economy will experience steady growth for the next several years.

Notes Parks, "People have to remember that the Pacific Northwest was a latecomer to the U.S. economic party that began when the recession ended in 1982. As a result, businesspeople didn't overbuild the way they did in the Northeast, Southeast and parts of California. In addition,



With Boeing as an anchor creating jobs for machinists and contractors alike, the Pacific Northwest's economy should be quite strong in the 1990s.

BOEING'S SLICE OF THE PIE



because of its overall diversity, the Pacific Northwest is still doing much better than the rest of the U.S. through this current recession and will continue to do so."

The economists at Security Pacific Bancorporation Northwest are also bullish on the Pacific Northwest's economy. According to the bank's 1991 forecast of the region, manufacturing growth will lead the way. The report points to strong aerospace, machinery and instrument production in Washington, as well as active metals and machinery manufacturing in Oregon, electrical machinery production in Idaho, and a steady food processing industry in Alaska.

Notes the report, "Over the long run, the Pacific Northwest is expected to post above-average growth in durable goods manufacturing and private service industries. The region will also continue as a strong competitor in high technology industries such as electronic equipment, scientific instruments and commercial airplanes. These industries will in turn boost research and development, information processing and technical consulting services. The Northwest also has promising opportunities in international trade and in attracting foreign investors."

What do distributors think?

Truth be told, industrial distributors in the Pacific Northwest count their blessings. In numerous interviews with distributors across the region, many were thankful that they had not experienced a severe downturn like their colleagues in New England, California and other parts of the country.

One distributor, who requested anonymity, says it's very unclear where the region is headed. "The Pacific Northwest tends to lag behind the rest of the country's economic performance," he says. "So at this point, we don't know if this is the calm before the storm, or the calm before another economic upturn."

The answer may be somewhere in the middle. For example, Gordon "Bud" Pritchard, of Bellingham, Wash.-based Morse Industrial Supply, expects his company to experience high single-digit growth in 1991. But a Portland-based distributor who asked to remain anonymous says his company is working hard just to stay ahead of last year's pace.

Notes Morse Supply's Pritchard, "We've had great success selling to a diverse array of industries, including Boeing subcontractors, oil refineries and the fishing industry. Our strategy has been to take advantage of the region's diversity. We don't want our company to be dependent on any one company or industry."

The Portland-based distributor who requested anonymity agrees with this strategy. In fact, he says his company has had success selling to contractors, steel makers, shipyards, machine shops, utilities, and the electronics industry in the Portland area. "Sales in our Portland branch are up nearly 9% compared with our performance this time last year," he says. "But sales at our Seattle area branch have declined."

Why? For starters, the Portland-based firm is not the only distributor who reports a tough year in the Seattle area. Many of the distributors interviewed who do business with Boeing complain that the large aircraft producer is awarding business to machine shops in Southern California and the Midwest, as well as Mexico and the Far East.

As could be expected, the issue attracted attention in the local press. Boeing acknowledges the problem, but spokesperson Elizabeth Reese says that the company's policy is to hire suppliers who can deliver a quality product, on-time, at a competitive price, regardless of where they are located. Notes Reese, "What suppliers will find is that contracts at Boeing will be for longer periods

of time. As contracts are renewed, local suppliers are welcome to participate in the bidding process."

Despite the controversy, Boeing, and Boeing related business will continue to be a major source of sales for many industrial distributors. According to *Marple's Business Newsletter*, Boeing plans to spend more than $3 billion over the next several years to build new plants and offices—much of it to develop and build the Boeing 777 plane ordered by United Airlines. In addition, Boeing estimates that between 1991 and 2005, the international commercial jet market will require 9,000 new airplanes valued at $617 billion. If past performance is any indicator, Boeing will reap a lion's share of the available business (see chart).

The region's key issue

When people talk about the Pacific Northwest, tops on the list is the quality of life. From Oregon to Alaska, the region is known for some of the best hunting, fishing and camping in the world. In addition, Portland and Seattle are world class cities, complete with top flight convention facilities, professional sports teams and an active arts community. The major issue facing the region is how to grow responsibly, yet preserve the quality of life that makes the area such a desirable place to live. This is not always easy.

According to many of the industrial distributors interviewed, environmental groups seeking to save the spotted owl have badly hurt the forest products business—an industry which has also been plagued by overcapacity and weak demand. In addition, distributors in Alaska are skeptical of attempts by environmentalists to preserve the Arctic National Wildlife Refuge, the 1.5 million acre tract commonly referred to as ANWR.

'The Pacific Northwest is what Arizona and the rest of the Sun Belt was 15 years ago.'—King

As ID reported in its Oct. 1989 issue, development of ANWR could create as many as 250,000 jobs by the year 2005. Jobs that will pay an estimated $6 billion in annual salaries. Notes John Brunton, of Alaska Rubber & Supply, "The truth of the matter is that because so much of our land is under federal control, our destiny is not our own. While the increased controls placed on the oil companies in the wake of the Exxon Valdez disaster have helped our business, a great deal of our future growth is tied into what Congress does with ANWR. Remember, nearly 85% of Alaska's economy centers around the oil industry."

Without question, it's hard to compare Alaska with the rest of the Pacific Northwest. For Alaskans, the development of ANWR and proposals for natural gas exploration are still pending. This will make for a tough few years for the region's distributors. On the other hand, distributors in Washington, Oregon and Idaho should benefit from the region's diversity. Regardless of what happens, one thing is certain. Industrial distributors in the Pacific Northwest will continue to struggle with some of the most complex environmental issues of our day. ID

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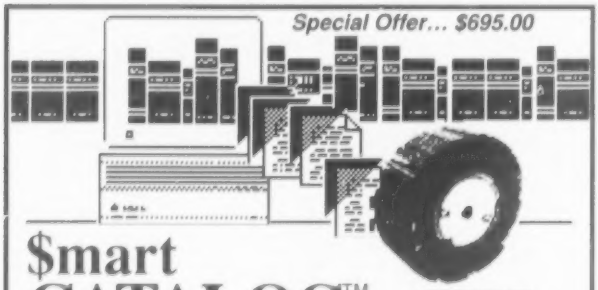

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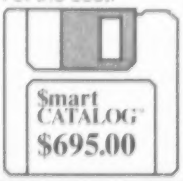

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By Susan E. Farris

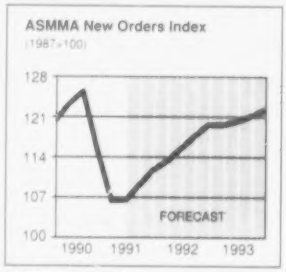
Outlook calls for moderate recovery

Export growth will remain strong into '93.

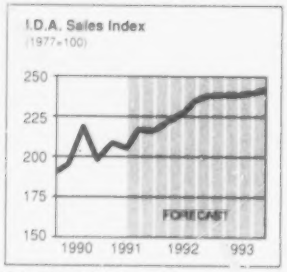
This recession has not been very long or deep compared to historic recessions. After falling for six straight months, total industrial production began rising in April as manufacturing started to rebound from the economic recession. Although production started to flatten out in the third quarter, this was due primarily to declines in the mining and utilities sectors. Both the original equipment manufacturers (OEM) and process industries continue growing. Due to the mild recession, the upcoming expansion is not expected to be particularly robust. Production will reach its peak in 1992; however growth will hit only 70% of 1988 highs.

In the third quarter, total industrial production was trailing the same period in 1990 by 1.8%. Output should pick up slightly in the fourth quarter to end the year only 1.8% lower than in 1990. The forecast predicts industrial production will expand by 3.9% in 1992 and then creep up another 4.0% in 1993. The OEM, heavy machinery sector will expand earlier and more vigorously than the soft goods, process industries side. OEM production will shoot up by 5.4% in 1992 and a further 2.4% in 1993. The process industries will see a 3.0% rise in production for 1992 speed up to 3.5% growth in 1993. One of the main driving forces behind this manufacturing recovery will be continued strength in exports.

Since 1986, exports have enjoyed an average annual expansion of 14.7%. Even in the midst of an economic downturn, exports averaged 7.5% growth in the first half of 1991. Several factors are acting in favor of future export growth: the depreciating value of the dollar, productivity gains in manufacturing, and U.S. labor costs becoming increasingly competitive with those abroad. As all these factors affect the manufacturing industry, one of the stronger components of exports is capital goods which are forecast to increase by 7.3% this year. As the manufacturing industry begins to expand, it will start turning to overseas markets to increase sales. Expect total U.S. exports to rise by 4.5% in 1991 and by another 5.9% in 1992. The outlook calling for capital goods exports to grow by 6.9% in 1992 and 5.9% in 1993, should prompt some decent gains for industrial production.



Data source: ASMMA
Forecast source: Cahners Economics



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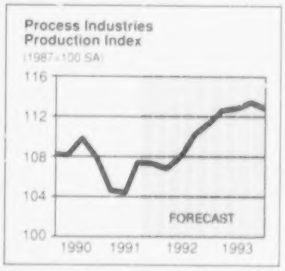
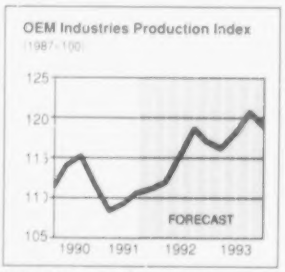
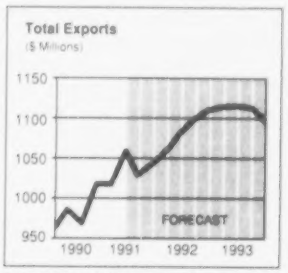


Data source: Federal Reserve Board
Forecast source: Cahners Economics



Data source: Federal Reserve Board
Forecast source: Cahners Economics

Data source: U.S. Department of Commerce
Forecast source: Cahners Economics



Data source: U.S. Department of Commerce
Forecast source: Cahners Economics

(1977=100)	SALES Sept. 1991	Aug. 1991	Sept. '91 vs Sept. '90 % change	RECEIVABLES Sept. 1991 days	INVENTORY Aug.-Sept. 1991 % change
TOTAL	220.5	216.1	3.4	41.7	-0.9
EAST	184.6	192.5	3.4	47.5	-1.2
SOUTH	390.5	352.4	19.8	39.4	-1.7
CENTRAL	145.6	160.5	-12.9	41.4	-0.1
WEST	208.3	217.9	-3.9	38.1	0.9

SOURCE: Industrial Distribution Assn.

CLIFTON'S VIEW

By Robert G. Clifton

Come on-line with EDI

Advanced software resolves compatibility issues.

EDI is in place throughout the U.S. and we are on the edge of the long predicted boom. How do we know? One indication is that the *EDI Yellow Pages* increased its listings by 40% in one year. Last year's directory listed 12,200 EDI users, and this year's edition has grown to include the names of 20,500 businesses (see chart). In fact, the number of companies using EDI has increased no less than 45% annually for the last several years.

The EDI boom is such a sure bet that many businesses, although they do not use EDI regularly yet, do have it in place and are ready for customers who want it. As more and more trading partners come on-line, those prepared companies will pick up the business.

All the support structure needed for the EDI surge has been building for a long time too. More than 1,000 EDI professionals actively support the ANSI X12 Committee on message format standards. Hundreds of software firms now offer EDI support covering all possible operations for all computer types. In addition, a dozen national networks are ready to handle the messages. EDI needs no introduction period either. Public education on EDI has included trade shows where attendance has broken records, and at least three magazines and newsletters focus on new developments.

But the main reason for the EDI increase is the availability of conversion software to solve compatibility problems. At one time messages could be exchanged only if both sender and receiver were linked through the same network. Now, the networks, in their own interest, arrange interfaces between differing systems.

Another old problem was the lack of a standard message format that could be understood by both parties. But the ANSI X12 code has become the *de facto* national standard and almost all new software is geared to it. Even in the computer manufacturing industry, the trend is towards making products electronically compatible. The new working agreement between IBM and Apple is a perfect example.

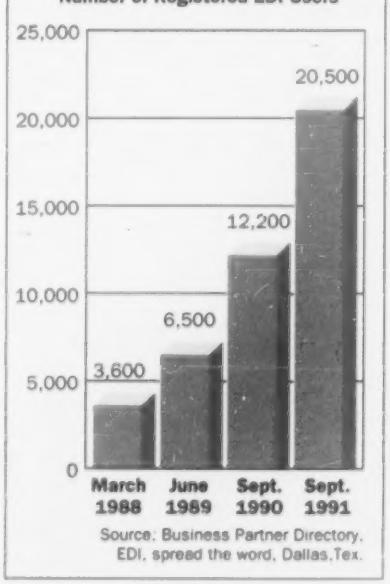
The quality control revolution has played a large part in the swing to EDI. Customers are grading their distributors on service quality as well as product quality. Low rated suppliers are being weeded out. Distributors are setting goals such as "100% service." They want no costly errors in shipping the wrong goods. Nor do they want goods landing on their dock at the wrong time. Distributors who take the long view will move into EDI ahead of their customers to save costs while maintaining or even enhancing service levels.

Looking ahead, it is obvious that progressive manufacturing plants will make heavy use of EDI with selected suppliers. The best example is the General Motors Saturn plant in Spring Hill, Tenn. Their JIT systems contracts call for full use of EDI by distributors. Saturn plant suppliers must keep their inventories current by EDI ordering from their original vendors.

Not only can EDI improve quality and efficiency, it also carries a prestige benefit. Distributors are discovering that when they implement EDI their customers see them in a new light—as progressive. There is, of course, a selling edge involved when distributors impress their customers.

With all the incentives proven, the support system in place, and the obstacles removed, the evidence keeps piling up that most companies will soon operate on EDI.

45% Annual Growth of EDI



Source: Business Partner Directory, EDI, spread the word, Dallas,Tex.